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DE RUEHNR #2872 3590701
ZNR UUUUU ZZH (CCY AD121656 AMG2477-695)
R 240701Z DEC 08
FM AMEMBASSY NAIROBI
TO RUEHC/SECSTATE WASHDC 8066
INFO RUCPDOC/USDOC WASHDC 3155
RUEATRS/DEPT OF TREASURY WASHDC
RUEHC/DEPT OF LABOR WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RUEHRC/USDA FAS WASHDC 1728
RUEHXR/RWANDA COLLECTIVE
RUEHBS/USEU BRUSSELS

UNCLAS NAIROBI 002872

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SUBJECT: KENYA'S STAGNATING ECONOMY

REF: Nairobi 2778

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¶1. (U) Economic growth registered 2.1 percent in the third quarter, falling over one percent from the second quarter rate of 3.4 percent. Continuing double-digit inflation (particularly for food and fuel), declining agricultural production, and a struggling tourist sector (still recovering from the January-February 2008 violence) are the principal causes of slower growth.

¶2. (SBU) In public remarks over the last several months, senior reps from the Ministry of Finance, Central Bank and IMF appeared confident GDP growth would reach at least 4.5 percent in 2008. (Kenya's economy expanded 7 percent in 2007; the violence in early 2008 roughly halved the country's expected annual growth.) On December 23, however, the Finance Ministry's Economic Secretary, Geoffrey Mwau, told us that the third quarter results mean Kenya will "barely" reach 4 percent, "if at all" for the year. Mwau is still analyzing the data, but preliminarily reports no clear link between Kenya's lackluster third quarter performance (ending September) and the global economic crisis - the impact of which should be reflected in the fourth quarter numbers and beyond.

¶3. (SBU) Comment: As 2008 comes to a close, Kenya's economy continues to stagnate in the wake of the ethnically-charged post-election violence this past January-February. The global economic crisis seems certain to constrain the economy through 2009, given likely reductions in demand for key exports cut flowers, tea/coffee, fresh produce, and tourism. Remittances - a social safety net and past driver of investment (e.g., real estate and the Nairobi Stock Exchange) - will likely decline in coming months. With forty percent of Kenyans already unemployed, half the country surviving on about \$2/day, and a doubling of staple food prices over the last twelve months, the possibility of social unrest looms large during the coming year if the global economic crisis hits as hard as we believe it will. In order to mitigate against possible unrest, the GOK must take the hard decisions on economic and political reform in 2009. End comment.

